

Part 4

Section A:

Questions 1 - 40

The following statements are either true or false. Select the most appropriate answer and darken the circle under A for true or under B for false.

1. "Practice before the Internal Revenue Service," means preparation of a tax return, furnishing information at the request of the IRS and appearing as a witness for the taxpayer.
2. An applicant whose application for enrollment has been denied may file an appeal within 30 days of receipt of the notice to the Secretary of the Treasury.
3. A parent has authority to represent his/her child only if the child is present.
4. A disciplinary proceeding will not be instituted until the facts or conduct which may warrant such action have been called to the attention of the respondent and he has been accorded opportunity to demonstrate or achieve compliance with all lawful requirements.
5. With regards to complaints filed against enrolled agents, all papers must be filed in duplicate.
6. Generally, a return is examined in the IRS district where the taxpayer lives. But if the return can be examined more quickly and conveniently in another district, such as where the books and records are located, the taxpayer can ask to have the case transferred.
7. After Elaine had filed her tax return, she discovered she was entitled to claim Head of Household instead of single. The change in filing status would reduce her tax. Elaine should file another 1040 with the correct filing status.

8. Peter did not want to appeal within the IRS contested income tax issues considered in a previous examination. He filed a claim for refund and requested that the claim be immediately rejected. The IRS promptly sent him a notice of claim disallowance. Peter has 2 years from the date of the notice of disallowance to file a refund suit in the United States District Court or in the United States Court of Federal Claims.

9. Jack and Jill Hill's return was selected for examination in 1997. There was no change to the one issue examined - medical expense. In 1998, they received a notice that their return was selected for examination and the issues were exemptions and contributions. Because they received a no-change in 1997, they should contact the IRS to see if the examination should be discontinued in 1998.

10. Kevin and Keith are partners in a body shop business. Both of them had their individual returns examined and both disagreed with the IRS. Kevin decided to take his case to IRS Appeals. After the conference he and the IRS still disagreed. Keith decided to bypass IRS Appeals. After satisfying certain procedural and jurisdictional requirements, both Kevin and Keith can take their cases to the following courts: United States Tax Court, the United States Court of Federal Claims, or the United States District Court.

11. Johnny disagreed with the IRS examiner and her supervisor regarding his income tax case. His appeal rights were explained to him and he wanted to go to Tax Court. Johnny must receive a notice of deficiency before he can go to Tax Court.

12. The definition of an income tax return preparer includes a person who prepares a return as a fiduciary.

13. Trent's Tax Service prepared the 1998 return of George Dell and was paid \$100 by Mr. Dell. The return was audited and changes were made to both income and expenses on the return but no additional tax was due. These changes were the direct result of negligent actions on the part of Trent's Tax Service. Trent's Tax Service may be liable for a \$250 penalty for understatement of taxpayers liability due to an unrealistic position under IRC Section 6694.

14. If a return preparer penalty is proposed because of an understatement of tax liability and that understatement includes a change to earned income credit, two separate penalties may be imposed - one for understatement of tax liability and a second penalty for failure to be diligent in claiming earned income credit.

15. A preparer is considered to have recklessly or intentionally disregarded a rule or regulation if a position contrary to a rule or regulation is taken on a return or claim for refund and if the preparer knows of, or is reckless in not knowing of, the rule or regulation in question.

16. If the IRS decides to assess a preparer penalty, a report of the examination must be furnished to the preparer and the preparer given 90 days to respond and receive further consideration before the penalty is assessed and billed.

17. The preparer must furnish the taxpayer with a completed copy of the prepared return no later than the time the original return is presented for signing. The preparer must sign both the original and the copy.

18. A signature stamp is sufficient to meet the return preparer signature requirement.

19. Jim, a tax return preparer, has several clients who travel extensively. They have requested that all returns and correspondence with the IRS bear their preparer's address so that he can handle their tax matters timely. Several have given Jim power-of-attorney. From time-to-time, a refund check will be received for one of these clients and Jim will deposit it to that client's account. Jim has not violated the prohibition against endorsing or otherwise negotiating a refund check of a return he prepared.

20. A person possessing a tax information authorization can inspect or receive confidential information and advocate your position with respect to the Federal Tax laws.

21. The filing of a Form 2848 terminates all previously filed tax information authorizations.

22. In any case in which a recognized representative is unable or unwilling to declare his/her own knowledge that the facts are true and correct, the Internal Revenue Service may require the taxpayer to make such a declaration under penalty of perjury.
23. A representative having a power of attorney is permitted to endorse a refund check if the taxpayer authorizes him to receive it.
24. With respect to docketed Tax Court cases, an Enrolled Agent or CPA cannot practice before the Tax Court.
25. The purpose of a CAF number is to give IRS personnel quicker access to authorization information.
26. If commercially available computer software is used to summarize business expenses, then the receipts and invoices need not be kept.
27. For retirement plan purposes, a sole proprietor is treated as his or her own employer; but a partnership is the employer of each partner.
28. The SEP and KEOGH retirement plans may be set up any time up to the due date of the employer's return, including extensions.
29. If you contribute more to the retirement plans than you can deduct for the year, you can carry over and deduct the excess in later years, subject to certain limitations.
30. In general, a 10% excise tax applies to nondeductible contributions made to qualified pension, profit sharing, stock bonus, or annuity plans, and to simplified employee pension plans (SEPs).
31. The initial tax on prohibited transactions of retirement plans is 15% of the amount involved for each year (or part of a year) in the taxable period. However, if the transaction is not corrected within the taxable period, an additional tax of 100% of the amount involved is required.

32. Form 5500-EZ is required for a one-participant plan, in the final plan year, even if the total plan assets have always been less than \$100,000.

33. Contributions on your behalf to a traditional IRA do not reduce your limit for contributions to a Roth IRA.

34. An employer who sets up a simplified employee pension plan (SEP) must set up a traditional IRA for each employee who meets certain conditions (age, length of service, earnings). An employer can establish less restrictive participation requirements for its employees than those required, but not more restrictive ones.

35. The filing of bankruptcy may not eliminate tax debt; it may temporarily stop IRS enforcement action from collecting a debt related to the bankruptcy.

36. The expiration date of an individual who passes the Enrolled Agent Examination in December 1999 is December 31, 2002.

37. Applications for renewal are required between November 30th and January 31st every three years.

38. Electronic Return Originators are responsible for ensuring that all paper documents required to complete the filing of returns are attached to Forms 8453.

39. An Electronic Return Originator is not required to enter the "non-standard form" code for Forms W-2 that are altered, handwritten or typewritten provided the totals agree with a cumulative earnings statement.

40. If the Service rejects the electronic portion of a taxpayer's return, and the reason for the rejection cannot be rectified by prescribed actions, the Electronic Return Originator, within 24 hours, must take reasonable steps to inform the taxpayer that the taxpayer's return has not been filed.

Section B:

Questions 41 - 80

The following questions are multiple choice. Select the most appropriate answer and darken the circle under the corresponding letter on the answer sheet.

41. All of the following individuals are eligible to practice (on a limited basis) before the IRS except:

- A. A regular full-time employee of an individual may represent the employer.
- B. A bona fide officer of a corporation may represent the corporation.
- C. A limited partner in a partnership may represent the partnership.
- D. A trustee of a trust may represent the trust.

42. All of the following are considered examples of disreputable conduct for which an enrolled agent can be disbarred or suspended except:

- A. Directly or indirectly attempting to influence the official action of any employee of the Internal Revenue Service by use of threats, false accusations, or by bestowing any gift, favor or thing of value.
- B. Misappropriation or failure to remit funds received from a client for the purpose of payment of taxes or other obligations due the United States.
- C. Knowingly aiding and abetting another person to practice before the Internal Revenue Service during a period of suspension or disbarment.
- D. Failure to timely pay personal income taxes.

43. With respect to preparation of a case for IRS Appeals the following statements are **Correct** except:

- A. A brief written statement of the disputed issue(s) is not required if the increase or decrease in tax, including penalties, or refund, determined by examination is more than \$2,500 but not more than \$10,000.
- B. If the proposed increase or decrease in tax, including penalties or claimed refund is more than \$25,000, the taxpayer must submit a written protest of the disputed issues, including a statement of facts supporting the taxpayer's position on all disputed issues.
- C. A declaration that the statement of facts is true under penalties of perjury must be added and signed by the taxpayer.
- D. If a representative submits the protest for the taxpayer, he/she must submit a declaration stating, that he/she submitted the protest and accompanying documents and whether he/she knows personally that the statement of facts in the protest and accompanying documents are true and correct.

44. For taxpayers that want someone to represent them in their absence at an examination or at an appeal within the IRS, all of the following statements are **correct** except:

- A. The taxpayer must furnish that representative with written authorization on Form 2848, Power of Attorney and Declaration of Representative, or any other properly written authorization.
- B. The representative can be an attorney, certified public accountant, or an enrolled agent.
- C. The representative can be anyone who helped the taxpayer prepare the return.
- D. Even if the taxpayer appointed a representative, the taxpayer may attend the examination or appeals conference and may act on his or her own behalf.

45. All of the following statements with regard to interest and penalties on agreed cases are **correct** except:

- A. Jan agreed to the proposed changes, she signed the agreement form and paid the additional tax. Jan will pay interest on the additional tax. Interest is figured from the due date of the return to the date she paid the additional tax.
- B. Joseph agreed to the proposed changes, he signed the agreement form, but he did not pay the additional tax. Joseph received a bill that included the interest. He paid the bill 11 days after he received it. He will not have to pay more interest or penalties.
- C. Jody agreed to the proposed changes, she signed the agreement form, but she did not pay the additional tax of \$2,700. On June 2, 1998, Jody received a bill that included the interest. She paid the bill on June 21, 1998. Jody will owe additional interest.
- D. Jane agreed to the proposed changes, she signed the agreement form on May 18, 1998, but she did not pay the bill until October 3, 1998. Jane will owe additional interest.

46. Nicholas wants his income tax case to be handled under the Tax Court's "small tax case procedure." All of the following statements regarding the "small tax case procedure" are **correct** except:

- A. The amount in the case must be \$10,000 or less for any one-tax year for court proceedings begun on or before July 22, 1998; or \$50,000 or less for court proceedings begun after July 22, 1998.
- B. The amount must be paid before going to Tax Court.
- C. The Tax Court must approve the request that the case be handled under the small tax case procedure.
- D. The decision is final and cannot be appealed.

47. Which of the following is an income tax return preparer?

- A. Neighbor who assists with preparation of depreciation schedule.
- B. Son who enters income tax return information into computer program and prints return.
- C. Woman who prepares income tax returns in her home during filing season and accepts payment for her services.
- D. Volunteer at a local church who prepares income tax returns but accepts no payment

48. If a penalty is proposed against a preparer that the preparer does not agree with, what actions are available to the preparer?

- A. Request a conference with the agent and present additional information and explanations showing that the penalty is not warranted.
- B. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay the penalty within 30 days and file a claim for refund.
- C. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay at least 15% of the penalty within 30 days and file a claim for refund.
- D. Any of the above.

49. Which of the following statements is true regarding records required to be maintained by return preparers?

- A. Tax return preparers are required to maintain a complete copy of each return or claim for refund they have filed for three years after the return period.
- B. Tax return preparers are required to maintain a list of the names, Identification numbers and tax years for whom returns are prepared and to keep this list for three years after the return period.
- C. Preparers have a choice of A or B.
- D. Preparers are required to maintain both A and B.

50. Which of the following is not true regarding the filing of information returns concerning employees who prepare tax returns?

- A. Annual listings of preparers, identification numbers, and place of work are required for preparers who employ others to prepare returns.
- B. The period for which the information return is required is a 12-month period beginning July 1 of each year.
- C. No information return is actually required to be submitted; a list is made and kept by the employing preparer.
- D. Information returns of income tax return preparers must be maintained by the preparer for two years.

51. A power of attorney is required in all of the following circumstances except:

- A. To furnish information at the request of the IRS.
- B. Authorize the extension of the statute of limitations.
- C. Execute a closing agreement under Sec. 7121.
- D. Receive a refund check.

52. With regard to the declaration of the representative on a power or attorney, all of the following statements are true except:

- A. A fiduciary is required to show his/her relationship.
- B. An Attorney must indicate the State in which he/she is admitted to practice.
- C. A CPA must include the State in which he/she is licensed to practice.
- D. A full time employee must show his/her title.

53. Which of the following is required for an individual to qualify for a self-employed retirement plan?

- A. You must not be covered by another retirement plan.
- B. Self-employment net loss is subtracted from any salaries and wages when figuring total compensation.
- C. Individual must not be age 70 ½ by the end of the tax year.
- D. None of the above.

54. Which of the following types of income is NOT considered to be earnings from self-employment?

- A. Income passed through to shareholders of S Corporations.
- B. Guaranteed payments to limited partners, which are paid for services to the partnership.
- C. Commissions.
- D. Fringe Benefits.

55. Your only employee, Manny Sales, earned \$200,000 in 1998. What is the maximum contribution you can make to his SEP-IRA for the year?

- A. \$ 6,000
- B. \$30,000
- C. \$ 2,000
- D. \$24,000

56. When figuring the deduction for contributions made to your own SEP-IRA, compensation is your net earnings from self-employment, which takes into account:

- A. A reduction for all of your self-employment tax.
- B. A reduction for the maximum allowable contribution to your own SEP-IRA.
- C. The deduction for one-half of your self-employment tax and the deduction for contributions to your own SEP-IRA.
- D. A. & B. above.

57. Your employee, Jane Wood, earned \$85,000 and elected to defer 10% of her salary. You make a 2% nonelective contribution. The total contribution that may be made for Jane under a SIMPLE IRA plan is:

- A. \$10,200
- B. \$ 8,500
- C. \$ 1,700
- D. \$ 7,700

58. Which of the following would most likely qualify as self-employment earnings for Keogh plan purposes?

- A. Fees a minister reports on Schedule C for performing marriages and baptisms.
- B. Income earned as a full-time insurance salesperson.
- C. Income an U. S. citizen earns in the U. S. as an employee of a foreign government.
- D. None of the above.

59. Generally, if a distribution is made to an employee under the retirement plan before he or she reaches age 59 ½, the employee may have to pay a 10% additional tax on the distribution. All of the following distributions are exceptions to this rule, except:

- A. Distributions made to a beneficiary (or to the estate of the employee) on or after the death of the employee.
- B. A series of substantially equal periodic payments beginning after separation from service and made at least annually for the life or life expectancy of the employee.
- C. Distributions made to an employee after separation from service if the separation occurred before the calendar year in which the employee reached age 55.
- D. Distributions made to an alternate payee under a Qualified Domestic Relations Order (QDRO).

60. Regarding retirement plans, prohibited transactions are transactions between the plan and a disqualified person. Which of the following is exempt from the prohibited transaction rules?

- A. A fiduciary of the plan.
- B. A person providing services to the plan.
- C. An employer, any of whose employees are covered by the plan.
- D. A disqualified person receiving any benefit to which he or she is entitled as a plan participant or beneficiary.

61. A Keogh plan must meet certain requirements. Which of the following is not a requirement of a Keogh plan?

- A. The plan must make it impossible for its assets to be used for, or diverted to, purposes other than for the benefit of employees and their beneficiaries.
- B. Contributions or benefits must not discriminate in favor of highly compensated employees.
- C. Minimum coverage requirements must be met.
- D. The plan cannot provide for payment of retirement benefits before the normal retirement age.

62. Betty, who is single, has income in 1998 totaling \$2,000. She is 35 years of age, and the income she received consists of \$1,500 earned from clerical work and \$500 from interest income. What is the maximum amount of money that she can contribute to a traditional IRA?

- A. \$2,000
- B. \$1,500
- C. \$500
- D. - 0 -

63. Margaret is fully vested and will receive social security benefits at retirement, but has no other retirement plan coverage. Her present and past employers have not had retirement plans available. In 1998, she files as single, and her earnings are \$34,000. Also, in 1998 she contributes \$2,000 to a traditional IRA. How much of the \$2,000 contribution may she deduct?

- A. \$ - 0 -
- B. \$1,200
- C. \$2,000
- D. \$800

64. Tony and Janet are married filing jointly. In 1998, Tony's taxable compensation is only \$1,500; and Janet's compensation is \$58,500. Tony contributed all \$1,500 of his earnings to a Roth IRA. Neither Tony nor Janet is covered by a retirement plan. What is the maximum amount Janet may deduct for traditional IRA contributions for herself and for Tony?

- A. \$2,500
- B. \$4,000
- C. \$2,250
- D. \$ - 0 -

65. For traditional individual retirement arrangements (IRA's) for tax year 1998, which of the following is correct?

- A. The modified AGI limitation range for joint filers was not changed.
- B. The Roth IRA contribution is deductible for a spousal IRA.
- C. Contributions may be made up to the due date of the return including extensions.
- D. If your spouse is covered by a retirement plan, and you are not, your traditional IRA deduction is not limited if your modified AGI on a joint return is less than \$150,000.

66. All of the following types of accounts are permitted for Individual Retirement Arrangements except:

- A. A trust or custodial account at an IRS approved entity.
- B. An individual retirement annuity.
- C. An employer and employee association trust account.
- D. Individual savings bonds clearly designated as an IRA.

67. Which of the following is correct regarding education IRA's?

- A. Contributions are deductible.
- B. Contributions other than cash may be made.
- C. Contributions may be made until age 30.
- D. The annual contribution limit is \$500 for each child, no matter how many education IRA's are set up for that child.

68. Generally, the excess contribution to an IRA is subject to a tax. Which of the following is correct?

- A. You will not have to pay the six-percent tax if you withdraw the excess contribution and any income earned on the excess contribution before the date your tax return for the year is due, including extensions.
- B. The six-percent tax is due on both the excess contributions and any income earned on the excess contribution.
- C. You will not have to pay the six-percent tax if you withdraw the excess contribution; and the earnings on the excess contribution are less than six percent.
- D. You will not have to pay the six-percent tax if you withdraw only the earnings on the excess contribution for the current year and subsequent years as well.

69. Generally, you must begin receiving distributions from your traditional IRA no later than which of the following dates?

- A. Six months after your 70th birthday.
- B. December 31st of the year in which you reach age 70 ½.
- C. April 1st of the year in which you reach age 70 ½.
- D. April 1st of the year following the year in which you reach age 70 ½.

70. Which of the following is not an exempt organization?

- A. American Society for Prevention of Cruelty to Animals
- B. Red Cross
- C. State chartered credit unions
- D. Privately owned nursing home

71. Which of the following organizations is not required to file an annual information return such as Form 990, Return of Organization Exempt From Income Tax?

- A. All are required to file; no exceptions.
- B. Any exempt organization with annual gross receipts exceeding \$25,000.
- C. A convention or association of churches with annual gross receipts exceeding \$25,000.
- D. Any Chamber of Commerce with annual gross receipts exceeding \$25,000.

72. If a taxpayer and the IRS still disagree after an Appeals conference, the taxpayer can take his case to:

- A. United States Tax Court
- B. United States Court of Federal Claims
- C. United States District Court
- D. Any of the above

73. With regard to the statute of limitations, all of the following statements apply to requests to extend the statute, effective date prior to December 31, 1999. All of the statements are **true** except:

- A. If tax has been assessed within the three-year limitation period, the IRS generally has 10 years following the assessment to begin a proceeding to collect the tax by levy or in a court proceeding.
- B. Form 872-A, Special Consent to Extend Time to Assess Tax extends the assessment period indefinitely.
- C. The 10-year collection period may not be extended after it has expired, even if there has been a levy on any part of the taxpayer's property prior to the expiration and the extension is agreed to in writing before the levy is released.
- D. The IRS must notify the taxpayer, each time an extension is requested, that the taxpayer may refuse to extend the period of limitations, or may limit the extension to particular issues or to a particular period of time.

74. Once a notice of federal tax lien has been filed all of the following are **true** except:

- A. The lien applies to all of the taxpayer's real and personal property and to all of his or her rights to property, until the tax is paid.
- B. The IRS will issue a release of the notice of federal tax lien within 15 business days after the taxpayer satisfies the tax due (including interest and other additions) by paying the debt, by having it adjusted, or if the IRS accepts a bond that the taxpayer submits, by guaranteeing a payment of the debt.
- C. By law, a filed notice of tax lien can be withdrawn if withdrawal will speed collecting the tax.
- D. The law requires the IRS to notify the taxpayer in writing within 5 business days after the filing of a lien.

75. With regard to seizure of property in satisfaction of a tax liability all of the following are **True** except:

- A. Any real property used as a residence by the taxpayer may not be seized to satisfy a levy of \$5,000 or less.
- B. The taxpayer's principal residence may not be seized without the written approval of a U.S. district court judge or magistrate.
- C. Before the sale of property, the IRS will compute a minimum bid price. If the minimum is not offered at the sale, the IRS may buy the property.
- D. If the proceeds of a sale by the IRS are less than the total of the tax bill and the expenses of the levy and sale, the taxpayer will not have to pay the balance.

76. The effective date of the next enrollment period is:

- A. Jan 1, 2001
- B. April 1, 2001
- C. Jan. 1, 2002
- D. April 1, 2002

77. Which of the following returns may be electronically filed?

- A. Tax returns with fiscal year periods.
- B. Amended tax returns.
- C. Current year Form 1040 with foreign address.
- D. Current year Form 1040 with APO address.

78. George knew that he had a substantial refund for tax year 1998, because he had worked at a high salary early in the year with extra withholding. He wanted to electronically file the return with direct deposit to expedite the refund. The Fix Tax Co. stated that its fee would be 10% of the refund for preparation and filing, with no additional charge for direct deposit. The No Tax Co. stated that its fee would be \$35 regardless of the refund amount, but that it charged a \$10 fee for direct deposit request. Which of the following is correct?

- A. George cannot electronically file because he is not employed at the end of the year.
- B. The Fix Tax Co. may charge a percentage of the refund because it does not charge for direct deposit.
- C. The No Tax Co. may charge the \$10 direct deposit fee because its \$35 filing and preparation fee is a flat fee.
- D. Neither the Fix Tax Co. nor the No Tax Co. is in compliance with electronic filing fee restrictions.

79. Which of the following statements applies to Refund Anticipation Loans?

- A. A Refund Anticipation Loan is money borrowed by the taxpayer from the U. S. Government.
- B. A Refund Anticipation Loan indicator must be included in the electronic return data that is transmitted to the IRS.
- C. If the anticipated tax refund is not received after a Refund Anticipation Loan is made, the loan is automatically subtracted from the subsequent years' refunds until paid.
- D. The Treasury Department is liable for any loss suffered by taxpayers, electronic return originators and financial institutions resulting from reduced refunds or Direct Deposits not being honored if documentation is provided that correct procedures were followed.

80. Which of the following applies to radio or television broadcasting regarding advertisement of electronic filing?

- A. The broadcast must be pre-approved by the IRS.
- B. The broadcast must be pre-recorded.
- C. The pre-recorded broadcast advertisement must be kept for a period of 36 months from the date of the last transmission or use.
- D. B & C.